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FISCAL IMPACT STATEMENT

LS 7596

BILL NUMBER: HB 1546

NOTE PREPARED: Mar 3, 2003

BILL AMENDED: Mar 3, 2003

SUBJECT: Local Unit Health Insurance.

FIRST AUTHOR: Rep. Fry

FIRST SPONSOR:

BILL STATUS: 2nd Reading - 1st House

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
☐ **FEDERAL**

IMPACT: State & Local

Summary of Legislation: (Amended) This bill allows active and retired elected or appointed officials and employees of local governmental units, including state educational institutions, to participate in a group health insurance program offered to active employees of the state.

Effective Date: July 1, 2003.

Explanation of State Expenditures: (Revised) This bill expands the eligible participants who may purchase insurance through the state employee plan. The bill requires local units to enroll for a minimum of five years, and requires that the number of local unit employees and retirees to be covered must be at least 90% of the number of active and retired employees of the state enrolled in the plan.

The decision to participate in the state employee health plan would be optional for a local governmental unit, including school corporations, and state educational institutions. The bill requires local governmental units and their employees and retired employees to pay the same rates for coverage as the state and its employees and retired employees, and allows for an administration fee as well. Local units that opt in to the state employee plan must commit to at least a five-year enrollment. This five-year commitment may result in a more stable risk pool and may prevent premium fluctuation.

A local governmental unit that chooses to participate in the state employee health plan may have an adverse effect on the premiums of that plan depending upon (1) the health claims history of the employees of the local unit and (2) the relative size of that group. In particular, if the claims history of such employees suggests that they are a higher risk group than members of the state employee health plan, premiums of the plan could potentially increase for all participants. The extent of the increase would, in part, depend upon

the size of the group joining the state health plan whose potential higher health care costs must be distributed among all members of the state health plan. There are currently 174,700 local unit employees that would be eligible for this coverage. There are currently 34,789 state employees enrolled in the state employee health plan. It is unknown as to how many new local unit groups would opt into the state employee health plan, however, the amended bill sets a minimum participation level of approximately 31,300 employees (this number is tied to 90% of state employee and retiree enrollment and subject to change.)

As of March 2003, there were 30 local unit groups participating in the current local unit group plan option managed by the State Department of Personnel, and covered 1,136 employees and dependents. Current rates for local unit group coverage average \$6,448 for single coverage and \$17,253 for family coverage per year. There are six different provider plans available for local unit group participants: one traditional self-insured plan and five health maintenance organization plans. State employee plan premiums average \$4,725 for single coverage and \$12,369 for family coverage. The state employee rates are \$1,723 less for single and \$4,884 less for family coverage than the current local unit group rates.

Assuming that these same local unit groups buy in to the state employee plan, this additional risk-associated cost would be spread among all state employees. The increased rates for these local unit groups tends to be correlated with adverse risk. This adverse risk would be spread among more employees if these individuals were enrolled in the current state employee pool, and their inclusion could increase the premiums for all individuals. The provision that requires a minimum number of enrollees may limit the premium increase, and may actually decrease premiums for the pool. However, the net effect is currently unknown. (Note: this analysis will be updated when more complete data is available.)

If the inclusion of these local groups results in increased premiums, the state may choose to absorb any additional costs or to pass these costs on to employees in the form of higher deductibles, higher premiums, or by limiting other conditions covered.

Background: Premiums may increase if the new local unit enrollees have higher health costs than the current state employee pool. This is also known as adverse selection, or groups of people who join a health plan having a greater than average need for services than the current participants in the health plan. This higher risk correlates to higher premiums for the entire group. A small employee health plan pool is more prone to adverse selection than a larger pool.

Explanation of State Revenues: (Revised) The State Department of Personnel may charge local units an administration fee. This fee may not exceed the cost of administering the local unit's coverage.

Explanation of Local Expenditures: (Revised) Local expenditures for health care may decrease or remain the same with increased benefits. Local units may be required to pay an administration fee to the State Department of Personnel. See *Explanation of State Expenditures*.

Explanation of Local Revenues:

State Agencies Affected: All, Institutions of Higher Education.

Local Agencies Affected: All.

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